

## Defense Planning, Programming and Budgeting System

The evolution of defense management is seen as a process of developing organizations, concepts and management tools needed to effectively direct the nation's military program. One such evolution has been the planning, programming and budgeting system (PPBS). The PPBS is the framework within which all decisions concerning our nation's defense posture are made. The purpose of the PPBS is to produce a plan, a program, and finally, a budget for the Department of Defense. The budget goes to the President for his approval. From there, the Department of Defense budget is included in the President's budget that goes to Congress for authorization and appropriation. Before we can continue, we need to know what the difference between the three phases of the PPBS process: **Planning** – How much defense do we need; **Programming** - How defense can, we afford; **Budgeting** – Are we executing our funds efficiently.

### Objectives

1. Define the main purpose of the PPBS process.
2. Identify the stages and products of each PPBS phase.
3. Describe the relationship of the major command POM to the PPBS process.
4. Recognize the role of the PPBS in acquisition management.
5. Identify the five major appropriations associated with defense acquisition management
6. Identify the difference between the DOD PPBS and the US Army PPBS.
7. Define the purpose of the Future Year Defense Program.
8. Recognize that an appropriations bill generates all funds.
9. Recognize that DOD budget are prepared or defended periodically.
10. Recognize the difference between incremental and full funding policies and to which appropriation each applies
11. Outline the basic flow of funds in the financial management process.
12. Recognize the process for allocating the Budget Authority granted by the enactment process.
13. Name the specific obligation and expenditure "windows" for the five appropriations associated with defense acquisition.
14. Recognize the major provision of the Misappropriation Act and Anti-Deficiency Act and what they are designed to prevent.

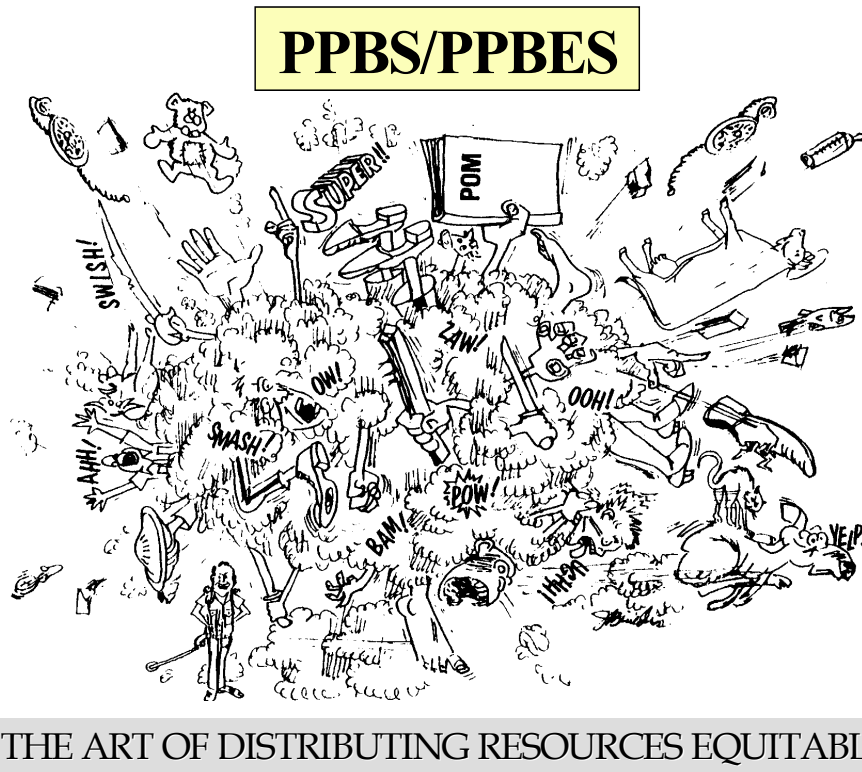


Figure 1

### Background

Secretary of Defense Robert McNamara established the DOD PPBS in 1962. The system as we know it today is dramatically different from the 1962 system.

Prior to the McNamara era, each Service essentially established its own single-year budget and submitted it to Congress annually. When McNamara became the Secretary of Defense (SECDEF) in 1962 he brought with him expertise on how to control large organizations—the major tenet being the need to plan and program to control change over several years (i.e., multi-year programming). His management approach required each Service to document their multi-year programming of resources in a single document termed the Five Year Defense Program (FYDP). He designated the SECDEF as the only approving authority for any changes to that document. Thus any Service that wanted to add, delete, or revise something in the FYDP had to obtain SECDEF approval. The Office of the Secretary of Defense (OSD) approved, disapproved, or modified a requested FYDP change.

The Services responded to this control, over time, by virtually swamping OSD with change requests. They apparently assumed that submitting more requests increased the probability that OSD would approve some of those requests. To accommodate this increase in change requests OSD established the Program Analysis and Evaluation (PA&E) office. The original responsibility of this office was to evaluate the change

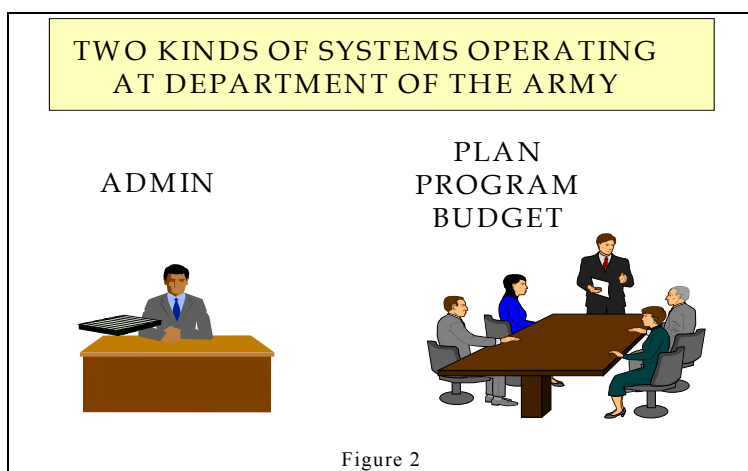
requests and to recommend to the SECDEF those change proposals that had merit. In the beginning the PA&E analysis focused on technical merit, defense needs, and adequacy of the proposal. Over time, however, this objective approach adjusted to the realities of resource constraints. Soon the analysis and evaluation of change proposals submitted by the Services (under a rule that if OSD approved the changes, then the Service got the dollars), began to focus on affordability as opposed to need or technical merit. More and more OSD analyses of proposals resulted in the disapproval of change requests under the guise of technical deficiency when, in fact, it was an affordability problem.

As this fact of life emerged, it became apparent that OSD needed a system to discipline the frequency, timing, quantity, and value of change proposals. That, in turn, resulted in the development of the PPBS framework, as we know it today, wherein Services submit changes to a multi-year program on a cyclical basis and OSD provides guidance on the dos and don'ts.

PPBS evolved to its present state as a result of internal OSD initiatives to make the system more responsive and as a result of pressures external to OSD to do things differently. Today, the PPBS includes the full range of activities that support both DOD and Army decision making concerning the allocation of resources. The Army in 1981 added Execution to its process and titled it PPBES. In that context we will identify the process as PPBES unless we specifically are discussing the OSD process then the term PPBS will be used.

## Overview

We will not attempt to describe in detail the PPBS and PPBES processes, but will instead attempt to provide a familiarity with the processes in layman's terms. Subscribing to the adage that a picture is worth a thousand words, Figure 1 graphically portrays the system as we know and love it today. There are really two kinds of systems operative in Headquarters, Department of the Army (HQDA) today (fig 2).

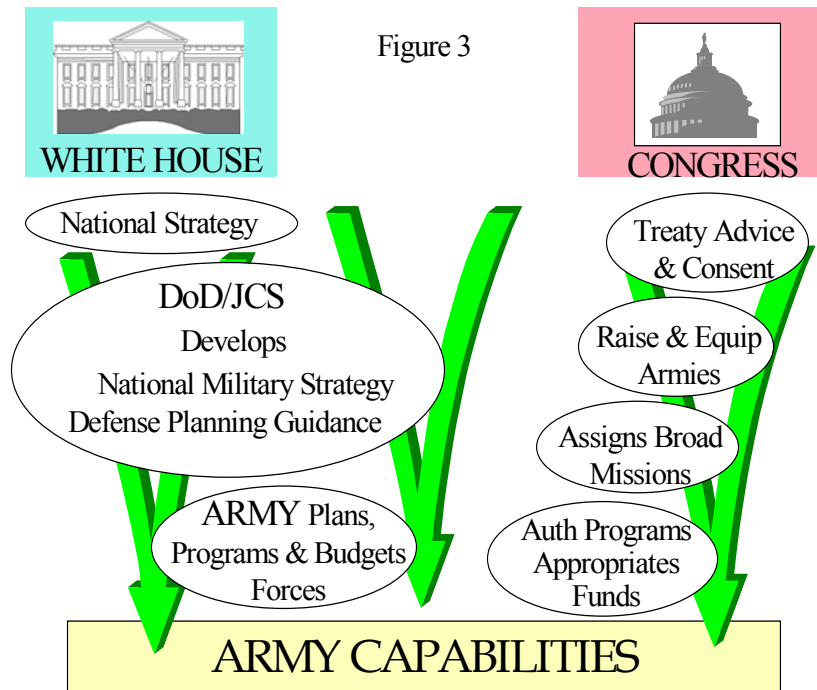


The administrative system consists of the processes and controls we establish essentially to “move the mail” and provides the procedures and policies we follow to communicate in a standard format within the headquarters. PPBES establishes and, in some cases, disciplines how we communicate both inside and outside the Army in terms of

planning, programming, and budgeting. While PPBS is primarily a DOD internal system, it has become an integral part of the vocabulary of Congress and other Executive

Departments. It is milestone oriented and ultimately influences activity levels, late hour and weekend work requirements, leave schedules, and the disposition of everyone it touches.

The entire system has its origin in an assessment of Army capabilities, both today and what the Army wants in the future. As shown in Figure 3, Congress and the Executive Branch adjust or refine these capabilities when they fulfill their constitutionally mandated responsibilities.



If we were to array the functions required to provide, sustain, and improve our capabilities and associate them with the elements of PPBES, we might see a correlation similar to that seen in Figure 4. The impression conveyed that there is no overlap is misleading; however, the degree of overlap between functions is a topic that generates heated

discussions and is one of the ingredients that causes the integration of the various functions. Suffice it to say it is not a heel-to-toe relationship and overlaps exist that require considerable cooperation and coordination between responsible agencies.

## Planning

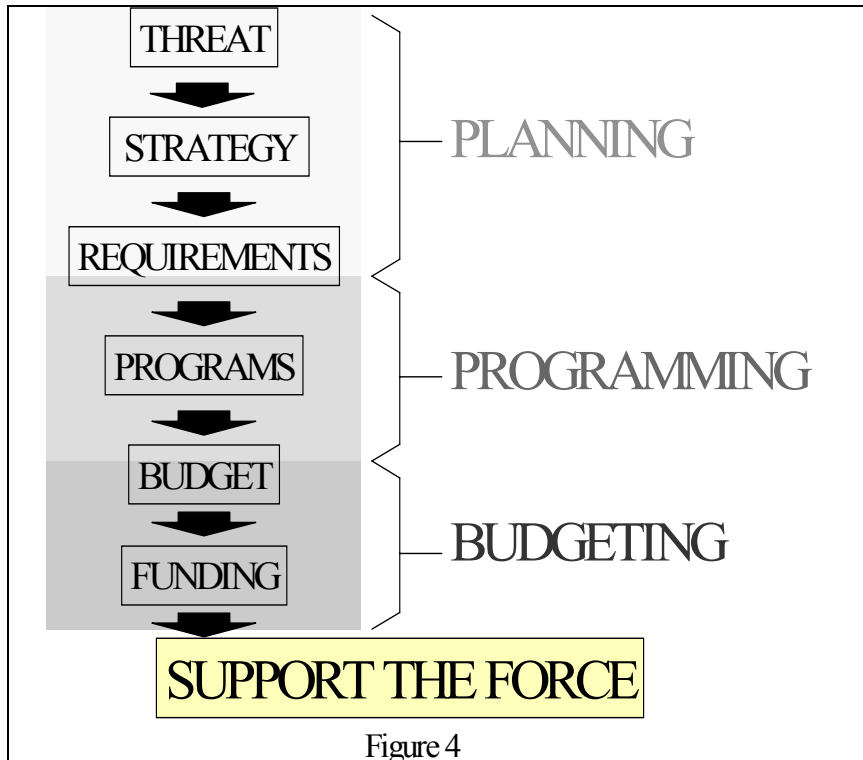


Figure 4

We will now turn to the so-called start point of the biennial (two year cycle) PPBES process—the planning phase. We show in Figure 5 the “what” aspects of planning. The Army breaks the planning timeframe into three sections: the far term (out to 25 years), the mid term (out to 16 years), and the near term (out to 6 years). It almost goes without saying that consistency during the planning phase is critical, if the plan is

to be relevant. If the plan is constantly changing or is not realistically attainable, it loses credibility and people will soon ignore it. Hence, the Army provides stability by fiscally constraining resource allocation and force size during the planning phase.

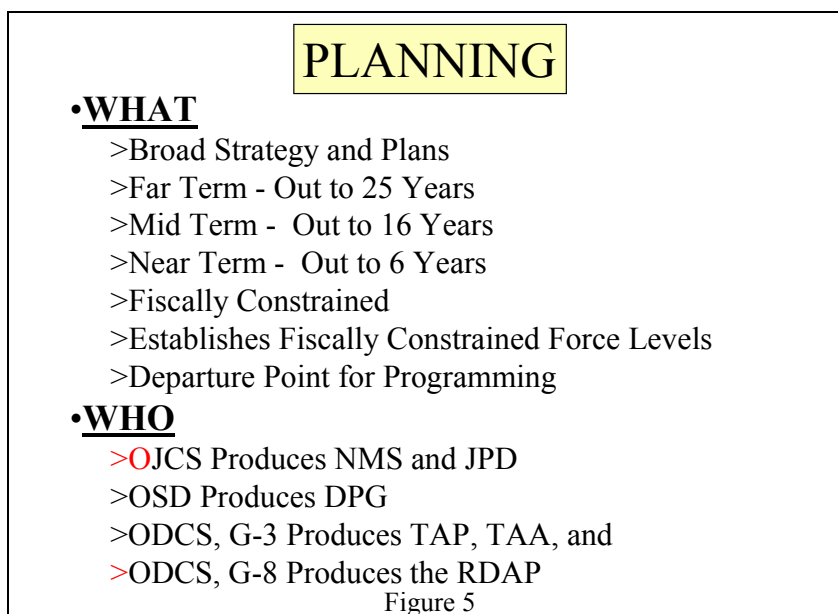


Figure 5

In Figure 5 we also introduce the *who* aspect of planning. The Organization of the Joint Chiefs of Staff (OJCS) produces a document called the National Military Strategy (NMS) that defines the national military objectives, establishes the strategy to accomplish these objectives, and addresses the military capabilities required to execute the strategy.

OJCS also produces a document called the Joint Planning Document (JPD) that provides

initial, timely, authoritative planning and broad programming advice to the Secretary of Defense for the preparation of the Defense Planning Guidance (DPG). The Office of the Secretary of Defense (OSD) then produces the DPG that provides guidance to the military departments and defense agencies for Program Objective Memorandum (POM) development. The DPG includes major planning issues and decisions, strategy and policy, strategic elements, the Secretary's program planning objectives, the Defense Planning Estimate, the illustrative Planning Scenarios, and a series of studies.

The Army's Deputy Chief of Staff, G-3 has overall responsibility for developing The Army Plan (TAP) and its three stand-alone sections. Section I is Army Strategic Planning Guidance (ASPG). It is the responsibility of the DCS, G-3 and analyzes the future strategic environment 25 years out. Section II is Army Planning Priorities Guidance (APPG). It is the responsibility of the DCS, G-3 and covers the six years of the POM plus ten additional years. Section III of the TAP is the Army Program Guidance Memorandum (APGM). It is the responsibility of the Director, Program Analysis and Evaluation (G-8 DPAE). It guides the POM by providing goals, objectives, sub-objectives and prioritized tasks for each of the six Program Evaluation Groups (PEGs). ODCS, G-3 conducts the Total Army Analysis (TAA) and the Office of the Deputy Chief of Staff, G-8 develops the Research Development and Acquisition Plan (RDAP). TAA produces the support and generating forces to complement the Army's operating forces. The RDAP produces a prioritized list of all RDA programs with funding and quantities for the POM and nine years beyond.

While both the DPG and TAP are formidable documents to sit down and read for complete comprehension, they are critically important documents in the process. The process of developing the DPG includes the military departments, Defense Agencies, and the unified commands, while TAP development includes all Major Army Commands (MACOMs) and Army Component Commands (ACCs) of the unified commands. Everyone in the chain has the opportunity to participate. Hence, the process itself is just as important as the final products because it provides direction and coordination within the Department of Defense and the Army.

## Programming

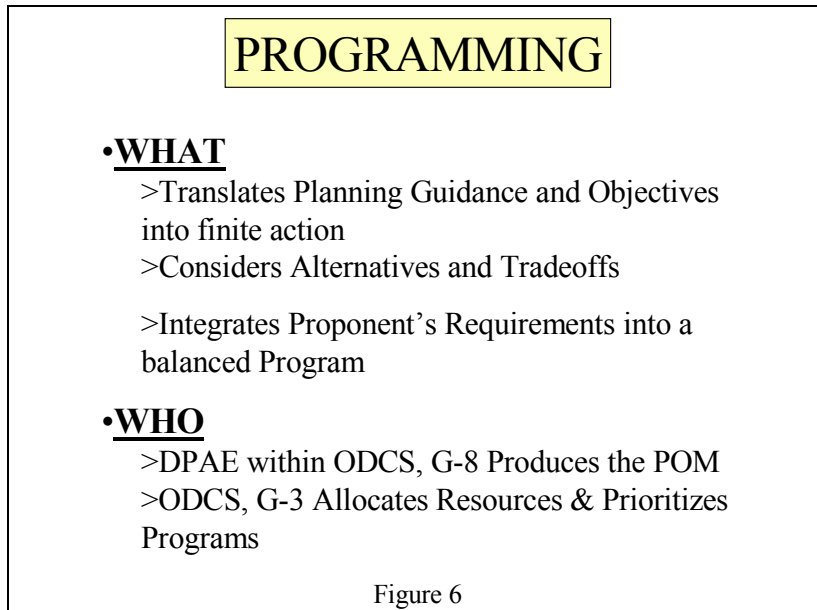


Figure 6

As we transition to discuss programming and budgeting, we must reflect on the change to PPBS that the SECDEF directed during the summer of 2001. He mandated that the program and budget reviews that had been conducted sequentially would henceforth be conducted simultaneously. This will make our consideration of the essentially sequential

programming and budgeting processes somewhat complex, but be assured clarity will be achieved.

In Figure 6, we depict the job description of a programmer. A programmer endeavors to translate the goals and objectives of the planner (i.e., requirements) into finite actions with resources applied. The programmer considers alternatives and tradeoffs but always remains focused on the planner's objective. Perhaps the most critical task of the programmer is to integrate all the different requirements into a balanced program. The program balance only becomes difficult when we must achieve that balance within constrained resources (more on this later).

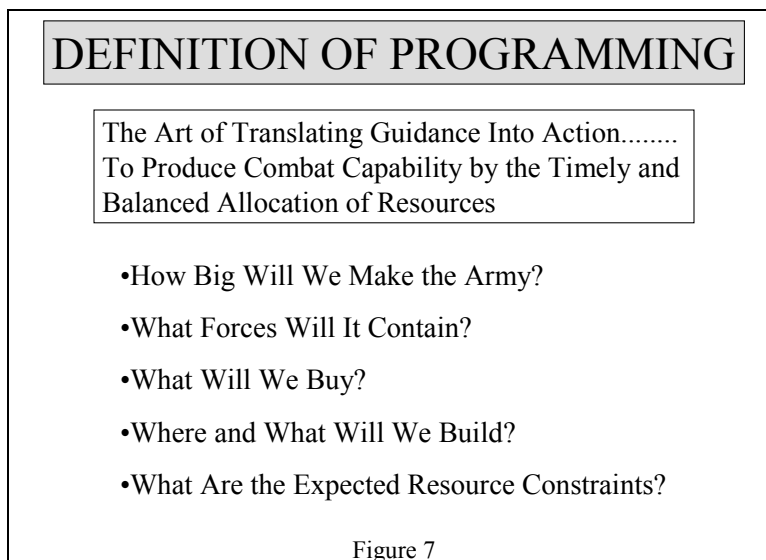


Figure 7

We display in Figure 7 what appears to be a different definition of programming than shown earlier. This really is not the case although it is academically a little more precise. Nevertheless, what is important in this graphic are the questions that the programmer must address. Hopefully, at this point an issue we raised at the outset is becoming clear, one central activity in the

organization cannot perform the programming function by itself. Every major staff element is an integral part of the programming function. When all the programmers on the Army staff get together they talk about these questions, and they address the conflicts, the alternatives, and the tradeoffs, but always oriented on the planner's objective.

We should now talk about what it is that programmers produce (other than headaches and confusion). They produce a document that displays the Army program over a six-year period. They call it a Program Objective Memorandum (POM) because that's what programmers have always called it. The POM used to include 14 or more Volumes but now is limited to one written volume and a database - many elements of which each service submits separately and has full control over and some of which that are controlled by other organizations with Service input. The format and contents of the POM are documented in the Program Preparation Instructions (PPI) issued by OSD PAE.

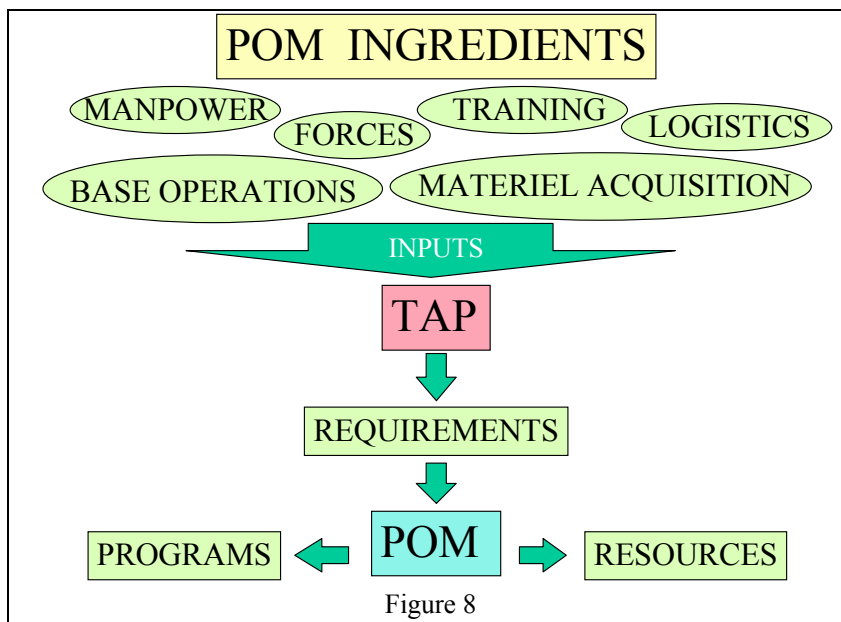


Figure 8 displays the major ingredients of the POM process. The POM contains what the Army proposes to do with the resources that OSD has provided in its fiscal guidance for each of the six program years in terms of forces, manpower, training, procurement, research and development (R&D), construction, logistics, and all the other things

it takes to sustain the force. Once OSD approves this document, they consolidate it with the other Services' POMs and now call it the Future Years Defense Program (FYDP). The FYDP is a computerized database that summarizes the force structure, personnel strength, and financial resources of DOD. It is updated at selected times during the PPBS cycle. FYDP contains 11 years of data, prior year, current year, two budget years, four outyears, three years of Force Structure. The structure of the FYDP contains data that is organized in three different ways: Components (Service and Agencies), Major Force Programs (MFP), and DOD Appropriation Categories.

The approval of the POM is not just a short note from the SECDEF to Secretary of the Army (SA) saying "OK on your POM." Sometimes OSD does not like our stewardship report on how we would allocate the resources. In cases where we disagree or where one of the Services raises issues, there is a big meeting with all the warlords from OSD and each of the Services. This deliberative body, called the Defense Resources Board (DRB), tries to reach some accommodation; normally we win some and lose some.



We find out how we fared when the SECDEF publishes his decision in what we call the Program Decision Memorandum (PDM). This decision memo tells us what parts of our POM are OK and what parts we have to change.

## Budgeting

Lagging behind programming, the budgeting process results in a piece of the program being transitioned to the budget.

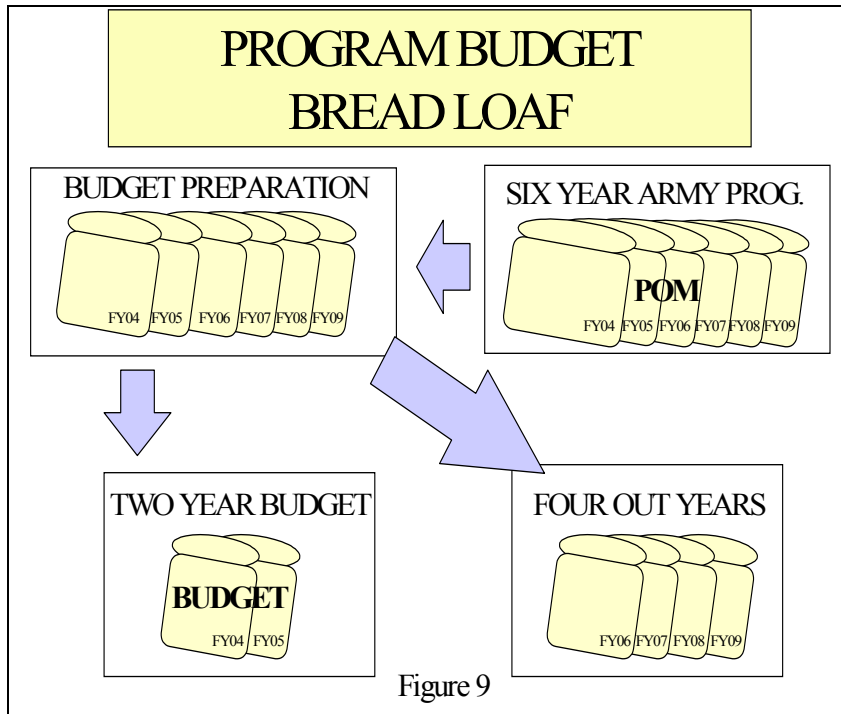


Figure 9 shows the POM, the six-year Army program, as a loaf of bread divided into six slices each representing one year of the POM. As we begin budget preparation we slice off the first two years and reformat those years from programmer language (programs) into budgetary terms (appropriations). We set aside the remainder of the loaf for about a year then we add two new slices (years) to

the back end that we bake into another POM.

## BUDGETING

### •WHAT

- >Budget Formulation
  - »Develops Detailed Fund Estimates to Support Plans and Programs
  - »Obtains Resources for Program Execution
- >Budget Justification & Explanation to Congress
- >Budget Execution
  - »Requests Apportionment of Funds from OSD
  - »Allocates Funds to MACOMs
  - »Reviews Expenditures & Obligations

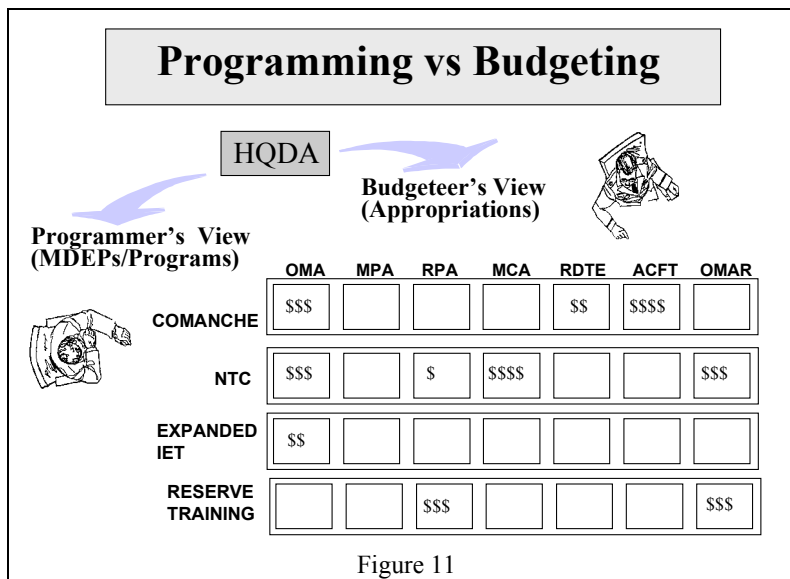
### •WHO

- >ASA(FM&C) -- The Army Budget Office
- >ODCS, G-3 Allocates Resources & Prioritizes

Figure 10

In Figure 10 we depict the **what** and **who** in the budget process of PPBES. The translation of the first two years of the POM into budget language and format is a formidable task that involves every element of the Army staff and Secretariat. This process proceeds almost in parallel to program development to facilitate the simultaneous submission of the POM and the Budget Estimate.

In Figure 11, we endeavor to show how the program relates to the budget and the perspectives of those performing the budget and program function. On the left side of the matrix we show the programming view that endeavors to look at packages (referred to as Management Decision Packages or MDEPs). These packages try to address all appropriations associated with that specific program line as the programmer endeavors to look horizontally across all appropriations.



We allude to this situation when we ask does that number include all the tails? What we are really asking is does the resource total shown include all the dollars or resources required from each appropriation to execute the program properly? The figure shows the budget perspective that looks down vertically, through all programs, oriented on a

specific appropriation. In theory, if we could put the whole Army program in this matrix, the programmer would read left to right to determine total cost of each specific program. The budget officer would look vertically to determine the total value of the appropriation and could further see what piece of that appropriation we designate for each program.

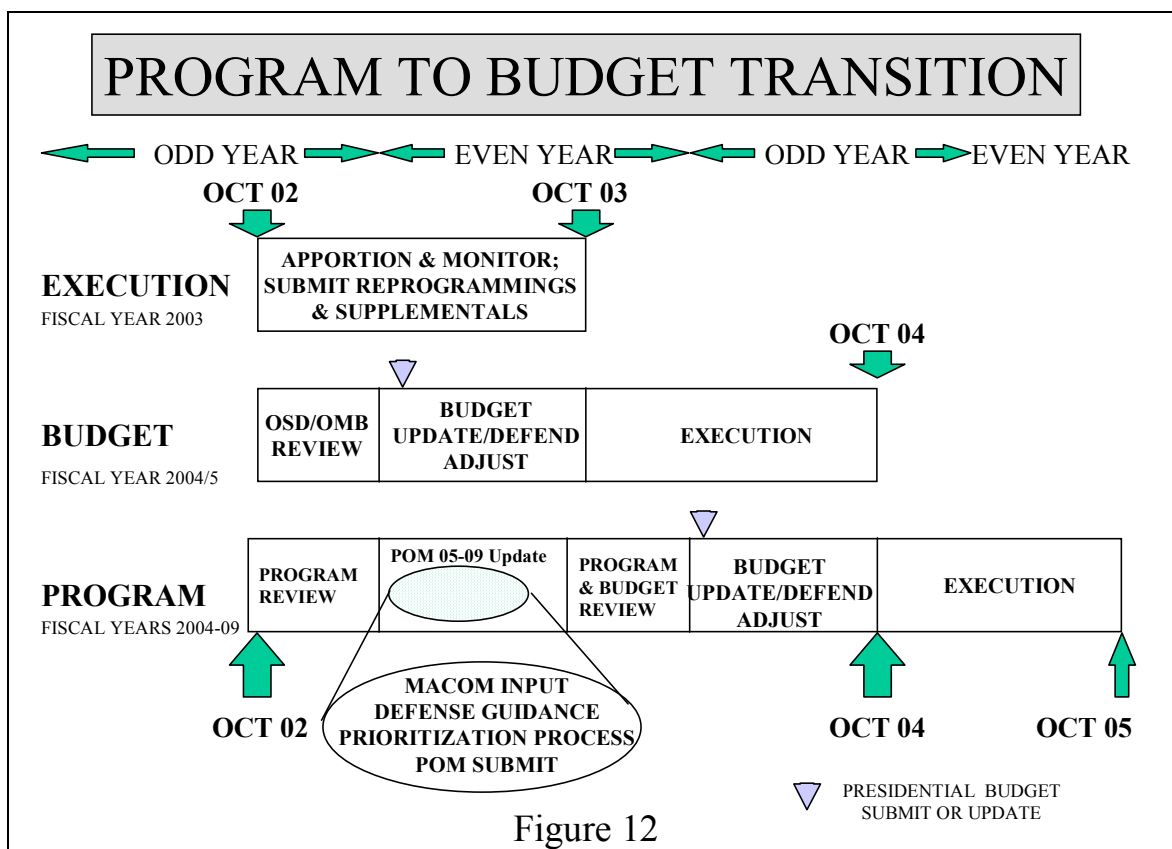
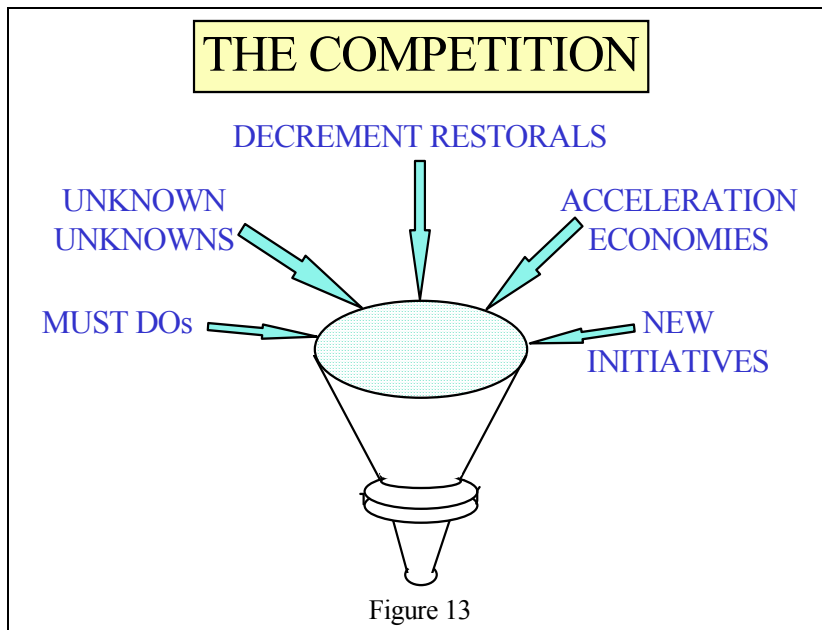


Figure 12 highlights that the PPBES is not a successive process where nothing starts until the preceding function has concluded. The program to budget transition really involves three separate functions all going on simultaneously. The situation illustrated started in October 02 in which the combined reviews of POM 04-09 and Budget 2004/5 were initiated. At the top we show fiscal year 2003 (FY 03), the execution year and the second year of the biennial budget years, FY 02-03. The second function shown we label budget, and it identifies the review of the new biennial budget. The third function labeled program shows that we first developed the program for FY 04-09 during the execution of the FY 02 budget (off the chart to the left) for the POM submission in late September. When you look at the OCT 02 arrow it becomes apparent that all three functions occur simultaneously and they interrelate. A simple example to point out interdependence might be the procurement of a *widgit* that we had budgeted to buy in FY 03. If for some reason we see that we cannot execute as we planned (e.g., changes such as cost or technical), we would probably have had to revise our assumptions for FY 04 and then modify our budget submission. We also would have to modify the subsequent program years (i.e., FY 05-09, called **the out-years**) because changes in FY 03 and FY 04 would probably require adjustments to the out-year resources. This simple example is one of many types where execution problems will drive changes into the program years and perhaps influence the plan.

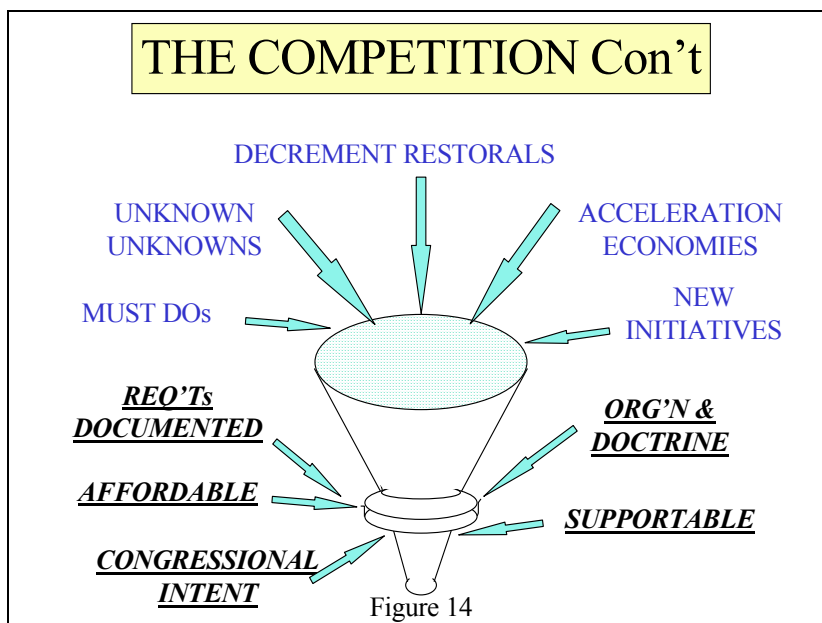
Figure 13 points out the competitors that continually try to get into the program and budget as a claimant for resources



First, there are those essential things called "must do's." They have their origin in changing strategy, doctrine, or threat, or a recognition that we have something broken and we must fix it. The second claimant is "unknown unknowns" which are either surprises or represent a hedge against a risk we are not willing to accept. Third, there are "decrement restorals" which is another way to say we should put back

in what we took out last year. Fourth, acceleration economies highlight that if we bought what we want faster we could save money. We also refer to this issue as "front end resources to achieve economic rates." Finally, we show "new initiatives" which are those things that respond to a demonstrated need and are trying to obtain resources. Because the Army can only accommodate so many adds to the existing program, we must establish some criteria to evaluate the competition.

Figure 14 highlights some of the criteria used in this discrimination process.



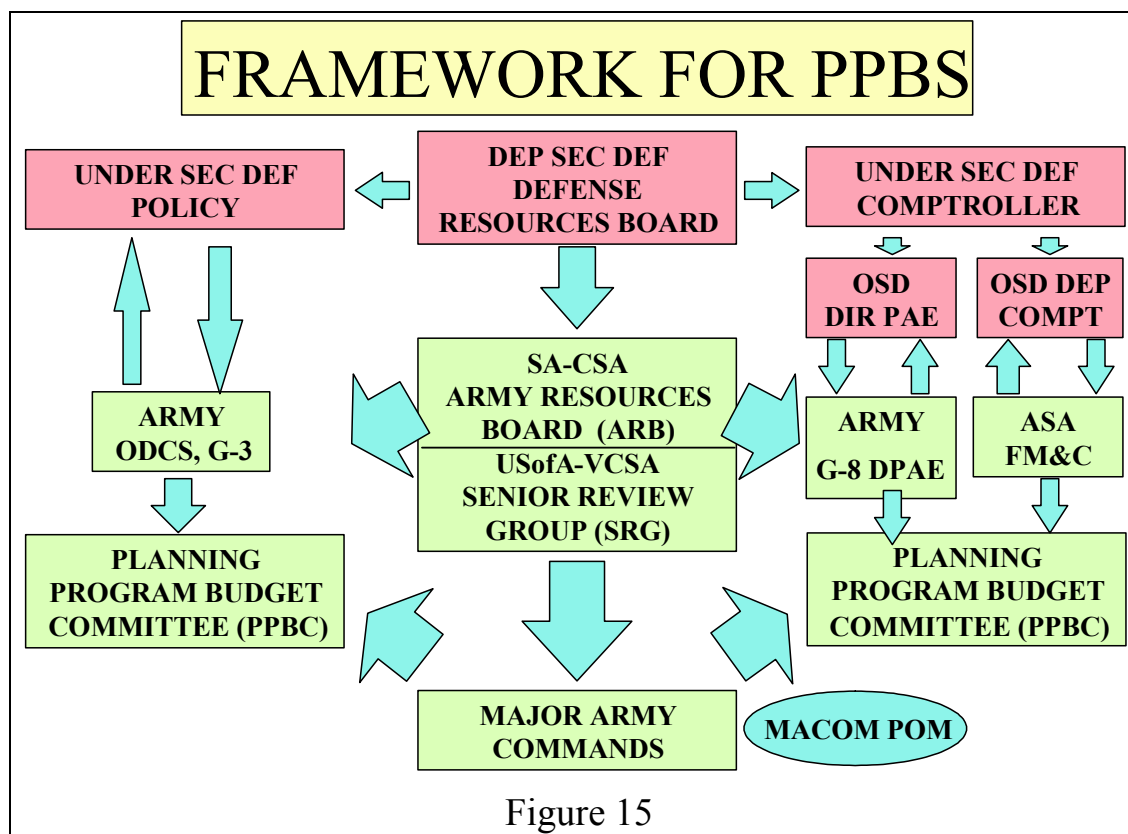
The first test is to determine if the need or requirement is valid or documented. Next is it affordable and, if not, how will it be resourced? Does the requirement complement existing or planned organization and doctrine? Is the proposal supportable in terms of dollars and spaces now and in the future? We also examine for sensitivity to Congressional intent.

Depending on the situation, there are many other **tests** that we can apply. We refer to this testing process as the Army prioritization process. The DCS, G-3 is responsible for

resource allocation and the prioritization of all Army programs, but the entire Army staff contributes. This prioritization process is a continuous process throughout PPBS. We might simplistically define the process as a technique where we segregate all the needs of the Army into functional groupings and rank them by their functional contribution. The DCS, G-3 then integrates the product of each of these functional groups (or what we call Program Evaluation Groups [PEGs]) into an Army master priority list.

### MAJOR PPBS PLAYERS

Figure 15 displays the major players in the formal PPBS process.



At the top we display the principal OSD entities including their deliberating and decision-making body, the Defense Resources Board (DRB), chaired by the Deputy Secretary of Defense (DEPSECDEF). During the planning, programming, and budgeting phases of PPBS, the DRB addresses major issues requiring resolution. Membership includes only Under Secretary of Defense level principals, Service Secretaries, and the Chairman and Vice Chairman of the Joint Chiefs of Staff. The Service Chiefs usually attend with the Service Secretaries.

In the middle, we depict the Army's final deliberating and decision-making body called the Army Resources Board (ARB). The SA chairs and the Chief of Staff of the Army (CSA) vice-chairs the ARB. The Senior Review Group (SRG), co-chaired by the USA and the VCSA, is the central council for coordination of all issues requiring ARB

review and approval and is the intermediate senior body between the ARB and the Planning Program Budget Committee (PPBC).

At the bottom of the diagram, we show the Planning Program Budget Committee (PPBC) that includes every element of the Army staff and the Secretariat. The PPBC is the first formal committee with staff-wide participation that addresses the TAP, the program and the budget as an entity. The Deputy Assistant Secretary of the Army for Budget (DASA-B), the G-8 Director, Program Analysis and Evaluation (DPAE) and the Assistant Deputy Chief of Staff, G-3 (ADCS, G-3) are the co-chairs of the PPBC.

MACOMs provide input to POM development through the MACOM POM. The use of the Command Budget Estimate (CBE) and the Resource Management Update (RMU) were discontinued commencing with POM 98-03. Specific budget inputs are incorporated in the MACOM POM submission. In addition, greater emphasis is placed on ensuring consistency in the first two years of the POM and the two-year Budget Estimate Submission (BES). The PPBC makes initial decisions and recommendations as a body and proposes appropriate program or budget positions to the SRG and the ARB. The SA and the CSA will make the final decisions.

Recently the Joint Staff has played a more active role in PPBS. The major player is the Vice Chairman of the Joint Chiefs of Staff (VCJCS). Figure 16 depicts how the Joint Staff fits into the system.

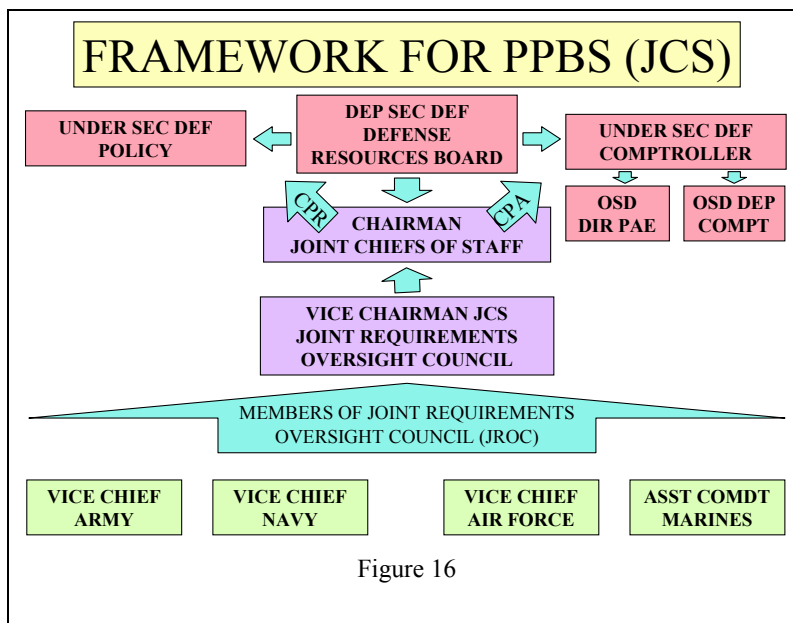


Figure 16

The VCJCS is chairman of the Joint Requirements Oversight Council (JROC) which oversees the Joint Warfighting Capabilities Assessments (JWCA) process and prepares the Chairman's Program Recommendation (CPR) and Chairman's Program Assessment (CPA). The CPR provides the Chairman's recommendations to OSD for inclusion in the DPG, and the CPA is the

Chairman's assessment of the service POMs. The VCSA is the Army's representative on the JROC.

## Program Evaluation Groups (PEGS) 1996

PEG NAME	PROPONENT	CO-CHAIR FOR POLICY DETERMINATION	CO-CHAIR FOR REQUIREMENTS DETERMINATION	APPROPRIATION SPONSOR*	PROGRAM INTEGRATOR
ORGANIZING	DCS, G-3	ASA(M&RA)	DCS, G-3	ASA(FM&C)	G-8 DPAE, G-3
MANNING	DCS, G-1	ASA(M&RA)	DCS, G-1	ASA(FM&C)	G-8 DPAE, G-3
TRAINING	DCS, G-3	ASA(M&RA)	DCS, G-3	ASA(FM&C)	G-8 DPAE, G-3
EQUIPPING	DCS, G-8	ASA(ALT)	DCS, G-8	ASA(FM&C)	G-8 DPAE, G-3
SUSTAINING	DCS, G-4	ASA(ALT)	DCS, G-4	ASA(FM&C)	G-8 DPAE, G-3
INSTALLATION	ACSIM	ASA(I&E)	ACSIM	ASA(FM&C)	G-8 DPAE, G-3

\* Includes C, ARNG & CAR

Figure 17

The Program Evaluation Groups (PEGs) play an important role in the PPBES process. They support all phases of the PPBES with special emphasis on the POM building process. Before POM 98-03 there were 14 PEGs and now there are six. The composition of the PEGs is shown in figure 17. Each PEG has extensive representation throughout Army Headquarters. They were restructured to more closely align the Army's POM build to the five pillars of defense used by OSD in the PPBS and to the U.S.C. Title 10 responsibilities of the Secretary of the Army.

### Timelines

Even though we have probably been as clear as mud with our preceding discussion, we will take a fast spin through an abbreviated PPBES cycle. We will start our rapid journey on 1 January of an odd year and we will trip lightly through the succeeding two years.

Beginning in January-February timeframe, the Army staff will start the development of the TAP. The TAP goes through the PPBC, SRG, and ARB framework for the PPBES. By July, under the direction of the ODCS, G-3, the Army staff should have Section I and II of the TAP to the CSA for initial approval and by August-October timeframe to the SA and CSA for final approval and signature. Section III of the TAP, which is the responsibility of the G-8 DPAE, receives final approval and signature of the SA and the CSA later in the December-February timeframe.

On 1 October, despite all the other things going on, the planning phase of the PPBS is now going into high gear at OSD. Hopefully, the JCS has already provided the Joint Planning Document (JPD) to OSD, and the Army has published and distributed the update of the TAP to the MACOMs for their MACOM POM development. The OSD staff, working under the direction of the Under Secretary of Defense for Policy (USD [P]) and in close coordination with the Services and JCS, is completing the planning objectives and goals for the Defense Department. OSD constrains this planning effort by providing a macro resource allocation that estimates the available resources and costs for the planning years. The DRB will review this planning effort in a series of meetings throughout October and November with decisions sometime in December. OSD publishes the draft Defense Planning Guidance (DPG) soon thereafter for review and coordination, the earlier the better for the Services. However, there often is a delay in its publication. The Services participate in the development of this guidance although they do not have veto rights.

At some time and possibly with the publishing of the DPG, OSD provides fiscal guidance (total obligation authority) for each of the six program years. OSD develops this fiscal guidance with direction from the President's Office of Management and Budget (OMB). Ideally, from the Army's perspective, we need the fiscal guidance as early as possible in the programming phase (i.e., January), but in the past OSD has provided it as late as April.

The Army staff begins POM development in earnest in January. The MACOM POMs are received in February. As the development process continues into the summer, the pace steadily intensifies and PPBC, SRG and ARB meetings become more frequent and longer. The Secretariat is always involved and plays an integral part in the development of all memos, read-ahead packages, and decision papers.

Hopefully by mid-August, we have resolved all major issues relating to the Army Program, and the SA and CSA have approved it. The Army staff now turns to writing the narrative portion of the POM and articulating the rationale. OSD now requires the Services to submit their POM in late September).

During the fall, OSD reviews the POM and develops issues. OSD provides this major issues list to the Services for comment and reclama while major issue teams review the Service programs. The Program Review Group headed by the OSD Director of PA&E reviews the issue teams' recommendations and briefs the DRB beginning in mid-October. At the conclusion of the DRB meetings, the DEPSECDEF makes final decisions and relays those decisions to the Services through the Program Decision Memorandum (PDM). The PDM essentially approves the POM, as modified by decisions on the issues, and *locks* the Army fiscal levels and major program initiatives for the six POM years. Recently, OSD has issued two PDMs, one in August and one in September.

From late July to late September the Army staff transitions the first two years of the POM to budget format and forwards the Budget Estimate Submission (BES) to OSD by



the end of September. A series of PPBC, SRG, and ARB meetings precede the submission to discuss, adjust, and approve the contents.

Beginning in October and lasting through part of December, OSD and OMB will jointly review the Army budget and raise issues or where they believe there are requirements and cost estimating errors. They propose changes and provide the rationale for those changes in the form of Program Budget Decisions (PBDs). The Army analyzes each PBD and responds to OSD either agreeing or disagreeing with the OSD position. After the DEPSECDEF or USD (Comptroller) has signed most PBDs, the Army selects certain, still pending, adverse resource decisions as Major Budget Issues (MBIs) to present to the SECDEF and DEPSECDEF. Based on the MBI decisions and previously signed PBDs, the Army will adjust its budget accordingly. By the end of December, OSD will have **fine tuned** the budget and submitted it to OMB for inclusion in the President's Budget, which the President submits to Congress in the January/February timeframe.

That was a two-year foot race through one cycle. We have not done justice to all the complexity and interrelationships involved, nor have we described the extent of the overlap in all the various functions.

### Execution—PPBS Becomes PPBES

Before 1981, the Army's managers of the PPBS focused their attention on the Planning, Programming, and Budgeting elements of the process as if they fully identified all the essential ingredients of the complete system. There was a major deficiency, however, as they tended to leave out the real world aspect of the process—the execution of the programs and budgets in the field. There was a compelling need to acknowledge the requirement to capture execution as a critical element of the process.

Several events must take place before the Army can execute its program after the President signs the Authorization and Appropriation bills passed by the Congress. OMB must apportion the appropriations providing obligation/budget authority. The Department of the Treasury must issue a Treasury Warrant providing cash. Program authority must be released by the Under Secretary of Defense (Comptroller). Finally, the Army process commences. Before the Army can execute its program for the fiscal year, all these authorities must be loaded into the Program Budget Accounting System (PBAS). Guided by appropriation and fund sponsors at HQDA and via PBAS, ASA (FM&C) allocates apportioned funds to MACOMs and operating agencies through the Funding Authorization Document (FAD).

It is only in the execution of the approved and resourced programs that we can evaluate the work that has gone into the early three stages of the process or simply restated—did we get the results we expected and for which we paid. If we have designed an attainable, workable program, defined it clearly to both our field commands and the Congress, and provided the resources, then we should be able to execute the program

successfully and demonstrate that achievement to ourselves and others. If we have not met this challenge, it will become perfectly obvious during the year of execution.

Sometimes we find in execution of our programs that we face problems that we had not foreseen. These problems might include workers' strikes at the plants that produce our weapon systems, changing international events and commitments of our forces, changes in our national political commitments, or any other of a multitude of possibilities. These are facts of life and we have to be able to accommodate and incorporate changes into the other ongoing PPBS phases of the process. We have to make certain that we get the greatest output—the most progress towards our stated goals—for the resources that the process makes available. Congress recognizes the need for flexibility during budget execution within stated restrictions and specified dollar thresholds. This allows federal agencies to reprogram existing funds to finance unfunded requirements. FY91 marked the first year of omnibus reprogramming which, except for construction accounts, consolidated all DOD reprogramming actions for submission at the same time.

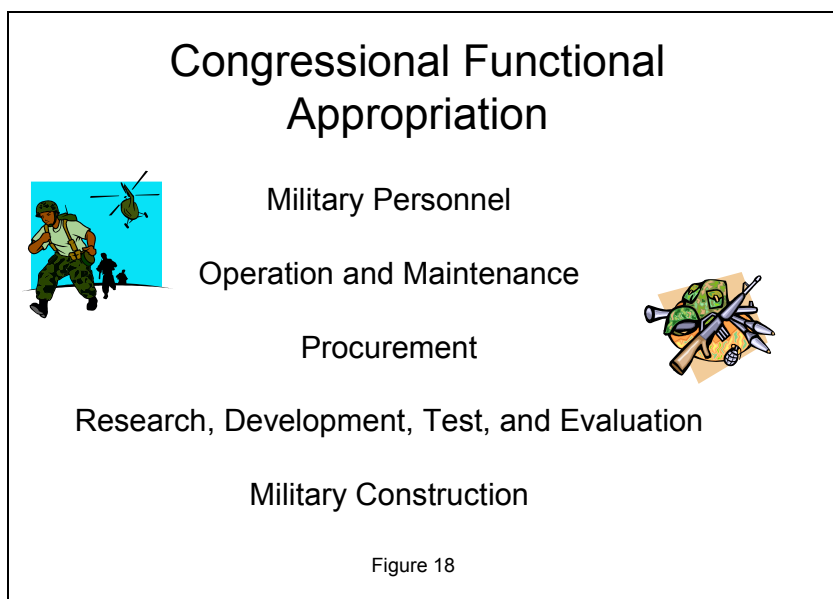
We have in the past, transferred responsibility to the field commanders for execution. We have to look at program execution in terms of the program outputs and not simply as the accounting for funds obligated and expensed through the finance system. Feedback allows us to eliminate our unworkable programs and correct our mistakes early in the continuing programming and budgeting processes. Each level of command has the opportunity to eliminate (i.e., kill) non-productive or ineffective programs that they have initiated and currently control. They also have the opportunity to recommend the elimination of programs that higher levels have initiated or currently control.

Past Administrations have recognized this need to evaluate our execution of the approved programs. In 1981, OSD established formal performance reviews for designated programs on a regular basis. They tasked the Services to account for the management of their program execution process. During the 1980s and until 1995, the Army staff conducted quarterly execution reviews called Program Performance and Budget Execution Reviews (PPBERS). Currently, the Assistant Secretary of the Army for Financial Management and Comptroller (ASA [FM&C]) conducts Quarterly Army Performance Reviews (QAPRs) of program performance and budget execution. Secretariat and Army Staff principals present the review directly to the SA and the CSA. The QAPR compares program performance with objectives set at the beginning of the fiscal year by the Secretariat and Army Staff principals. The Army System Acquisition and Review Council (ASARC) monitors performance of designated acquisition programs to include milestone reviews. Additional program performance feedback comes from the Standard Financial System (STANFINS), the principal accounting system for the majority of Army installations, and from the Tactical Unit Financial Management Information System (TUFMIS) for tactical units.

Now that we have an understanding of the PPBS/PPBES process and how it work. It is important to have a working knowledge of flow of funds and defense appropriations.

**Legislation.** The Appropriation act is the result of a long Congressional examination of the Defense Establishment. Congress, which operates mainly through its committee system, utilizes the Appropriations Act to control the level of expenditures in DOD. Budget requests for DOD are made as appropriation requests to Congress. The budget document is the President's plan for DOD regarding obligation authority and expenditures. However, before the Appropriations Act is passed by the House and the Senate and signed by the President, Congress must first approve the purpose for which funds are requested. This approval process within Congress is called authorization. The committees that present authorizing legislation to their colleagues for their approval are known as the Armed Services Committees. Both the House and the Senate have Armed Services Committees. Appropriations do not represent cash actually set aside in the U.S. Treasury. Rather, appropriations represent limitations on amounts that agencies may obligate during a specific timeframe. Before funds are spent, the President must sign the Appropriations Bill.

## Defense Appropriations



### **Military Personnel**

- These appropriations provide funds for pay, allowances, individual clothing, permanent change of station travel, and expenses of temporary duty travel between permanent duty stations for those members on active duty. Funds are also provided for retirement pay of military personnel, including reserve components.

These are one-year,

operating appropriations. They are available for obligation only during the year for which they are appropriated. They are managed at department headquarters level (Army, Navy, and Air Force). Estimates of the amounts needed are based on personnel strengths and are, therefore, accurate. The most unpredictable part relates to the cost of permanent change of station travel. Estimating the number of moves that personnel in the armed Forces are going to incur during the year is difficult to foresee. The Appropriations Act stipulates the amount of new obligation authority available to cover military personnel costs. In addition, the active duty military personnel strength, showing the number of officers, enlisted men, midshipmen, and cadets is present in the act. The act serves as a control mechanism because Congress is able to stipulate the size of military force structures.

**Operation and maintenance** - These appropriations finance the cost of operating and maintaining the Armed Forces including the Reserve Components. For example, it is used to pay for expenses necessary for daily operation and maintenance, including administration and medical and dental care of military personnel. These funds are commonly referred to as consumer funds because they are managed and utilized by the operating level (installation) to finance its daily consumer requirements of goods and services. Management and control of these funds presents a challenge to the service because of the wide variety of activities they finance. All major commands have responsibilities for one or more of the activities financed by the operation and maintenance appropriation. Therefore, each command echelon controls its respective amount of funds received. They may establish additional limitations on the use of these funds in attempting to preclude violation of the Anti-Deficiency Act. For example, before a Fund Authorization Document (response to a budget request) for an installation or ship is approved, each command echelon has had their say as to how much is spent for what purpose. Consequently, the user at the operating level has limited flexibility in determining use of these funds even though they are allotted to him by total amount for the appropriation. The Operation and Maintenance Appropriations, along with the Military Personnel Appropriations, comprise the annual operating costs for the defense establishment. The Operation and Maintenance Appropriations are available for obligation only during the fiscal year for which they are appropriated and remain available for disbursement for two additional years.

**Procurement** - These appropriations provide funds for Aircraft, Army; Missiles, Army; Weapons and Tracked Combat vehicles, Army; Ammunition, army; and Other Procurement, Army. There are comparable appropriations for the other services. These provide for certain construction, procurement, production and modification of major items of equipment, including aircraft, missiles, weapons, and tracked combat vehicles, ammunition, shipbuilding, spare parts and other equipment. Congress now provides separate appropriations for each procurement category. They have become more specific in their requirements placed on the military for utilization of procurement funds. Procurement appropriations are multiple year appropriations. All are available for obligations for three years except shipbuilding and conversion (Navy) that has a five-year obligation limitation. Each service justifies the annual budget requests for obligation authority for procurement by the items contained in the services long-range Materiel Requirements Plan. The justification is based on line item requirements. Considerable backup justification is prepared for high-dollar value and unique items.

**Research, development, test and evaluation (RDTE)** - This appropriation provides funds for basic and applied scientific RDTE, including maintenance, rehabilitation, lease, and operations of facilities and equipment. Funds are used for weapon systems analysis, developmental engineering, and fabrication of experimental models and prototypes. It includes procurement, production and modification of end items, components, and materiel under development. Operation and maintenance of facilities and installations (including those operated by contract) that are engaged in RDTE are also financed by this appropriation.

(1) One appropriation for RDTE activities is provided for each service. These are multiple year appropriations, available for obligation for two fiscal years. Justification of RDTE funds is based on individual projects and tasks.

(2) To affect better decision-making, Congress is continually informed of the concepts and desired objectives regarding force structure and weapon systems being developed by the planning and programming processes within DOD. Considerable congressional control exists in the transfer of funds from one project to another. In most instances, Secretary of Defense (SECDEF) approval is required before any transfers are made by the services.

**Military construction** - This appropriation provides funds for acquisition, construction, installation, and equipment of temporary or permanent public works, military installations, and facilities. Family housing expenses are financed by this appropriation, to include construction, acquisition, replacement, alteration, operation and maintenance activities. Congress provides a separate appropriation for each service. These funds are primarily managed at service level. They are five-year appropriations. The exception to the five-year availability in Military Construction, Army, is Family Housing Operation and Maintenance Funds. These funds are available for only one year. Budgetary requirements for funds under these appropriations are requested and justified by line item or project. A project includes not only the building itself, but all work to be performed at one time on a single real property facility. It also includes such auxiliary facilities that are required to produce a useful instrument of construction (e.g., roadways and certain installed equipment).

## Funding Policies

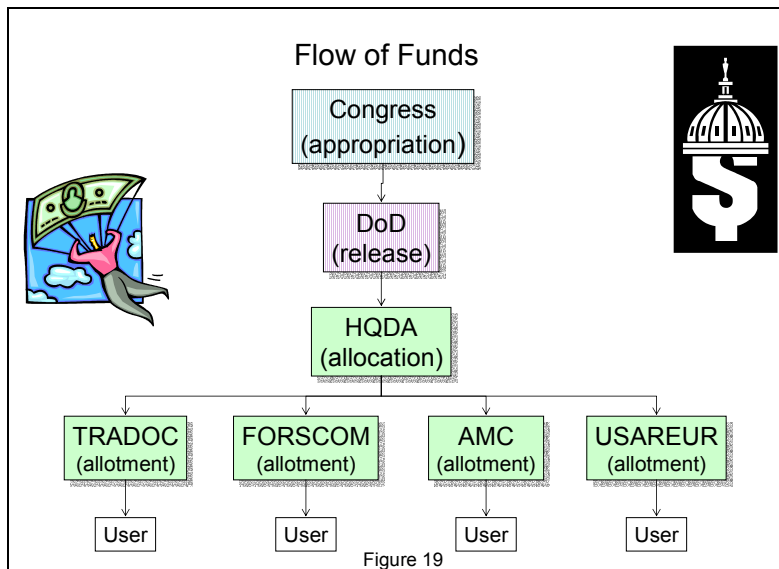
As a measure of fiscal discipline and control, Congress specifies funding policies or rules for each particular appropriations category. These policies specify how the DOD computes the budget request for each appropriations category in a given year. These funding policies are called annual, incremental and full funding.

Appropriation	Funding Policy
• MILPERS	• Annual
• O&M	• Annual
• Procurement	• Full
• RDT&E	• Incremental
• MILCOM	• Full

Annual funding policy governs MILPERS and O&M. The annual policy rule states – request the budget authority necessary to cover all expenses for goods and services for that fiscal year. Incremental funding policy governs the RDT&E appropriations category. The annual increment for RDT&E program element or project will be limited to the

budget authority necessary to cover all cost expected to be incurred to support work to be performed during a 12-month period. Full funding policy governs the Procurement (including Shipbuilding and Conversion, Navy). The full funding rule states that each year's appropriation request must contain the funds estimated to be required to cover the total cost to be incurred in completing delivery of a given quantity of usable end items in a 12-month funded delivery period.

## Flow of Funds



Once an Appropriations Act is passed by a joint session of Congress and made law by Presidential acceptance, funds can then be made available to the executive agencies (DOD, Health and Human Services, Commerce, etc.). There are several major steps used in distributing funds appropriated by Congress. These steps are mechanisms by which the funds are administered at each command echelon.

That is, obligation authority granted by Congress to an agency or department is converted into expenditures used to finance programs and activities. An appropriations warrant is sent to DOD when the Appropriations Bill is enacted. An Appropriations Bill is an act of Congress that provides budget authority and permits Federal agencies to incur obligations and make payments from the U.S. Treasury. An agency reviews and revises its budget in light of the approved Appropriations Bill and submits a request for apportionment to the Office of Management and Budget (OMB). Apportionment makes a designated portion of an appropriation available for obligation. The obligation authority can be used at the rate. The apportionment process is a mechanism for the president to exercise financial control over the execution of programs in almost any manner he sees fit as long as he does not apportion funds in excess of that appropriated, or he does not authorize the use of funds for which there is no legal basis. It also allows the President to regulate obligations by the agencies to avoid the need for deficiency or supplemental funds during the fiscal year. By law, the OMB exercises the apportionment authority. This law also authorizes apportionment of funds by time periods, program, activity, or by item. The obligation authority is usually apportioned by quarters over the period of the fiscal year.

Within DOD, similar devices control the use of the obligation authority apportioned by the OMB. DOD releases the apportioned funds to the services. The services, in turn, allocate funds to their special and general operating agencies. For example, allocation in the Army is an authorization by which the Comptroller of the Army makes funds available to special operating agencies such as the U.S. Army Materiel Command (AMC). These agencies sub-allocate funds to general operating agencies, such as the U.S. Army Tank-Automotive and Armaments Command (TACOM).

Allotment is usually the final method that is used to make funds available for obligation. A special or general operating agency can allot funds to itself or to some installation or activity under its command. For example, the U.S. Army Training and

doctrine Command (TRADOC), will allot funds to all of its installations. An allotment is the breakdown of an allocation by organizational unit.

The installation or activity can now incur obligations. An obligation is a legal reservation of funds. The activity using obligation authority will purchase goods and services to accomplish its mission (i.e., an installation commander purchases goods from local economy with appropriated operating funds or, AMC enters into a contract agreement to purchase end items from a civilian corporation). Incurring an obligation does not mean immediate cash expenditure. The actual expenditure of funds often lags behind the obligation of those funds.

One other area of important is Security Assistance. Although, it is not a part of US Government budgeting process it can have a big impact in the acquisition of US weapons and items. Security Cooperation is founded on a tradition of cooperation between the United States and other sovereign nations with similar values and interests in order to meet common defense goals. It consists of a group of programs authorized by the U.S. Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act, as amended, and related statutes by which DOD or commercial contractor provide defense articles and services in furtherance of national policies and objectives. Foreign Military Sales (FMS) and International Military Education and Training (IMET) are two key programs included within Security Cooperation. IMET is conducted solely on a grant basis. FMS can be conducted using cash or FMS Financing (FMF).

FMS is managed and operated by DOD on a no-profit and no-loss basis. Countries participating in the program pay for defense articles and services at prices that recoup costs incurred by the United States. This includes a fee (three percent of item and service cost in most instances) to cover the cost of administering the program. When defense articles or services are required, the requesting country's representative in the defense establishment of the country or stationed at the embassy in the U.S. provides a Letter of Request (LOR) to the representative's U.S. counterpart. The U.S. counterpart forwards an information copy of the request to the Department of State (DOS) Bureau of Politico-Military Affairs and the Defense Security Cooperation Agency (DSCA). The original is furnished to the DOD Military Department (MILDEP - Army, Navy, or Air Force) or Defense Agency which will prepare the response. FMS is accomplished in two ways; FMS cash purchases whereby the purchaser (foreign government) pays in cash (US Dollars) all cost that may be associated with the sale; Foreign Military Financing wherein USG grants/non-repayable and repayable loans are involved. These credit/loan arrangements are negotiated by the foreign government and the US Government. In either situation cash purchases or financing-the funds that are require to implement the Letter of Offer and Acceptance must be paid or transferred to DFAS-DE/I where they are closely accounted for in the FMS Trust Fund. The FMS Trust Fund – is a fund established by each FMS customer country for recording all financial transactions for use in carrying out specific purpose and programs in accordance with an agreement

A response to FMS requirement may be in the form of Price and Availability (P&A) information or a Letter of Offer and Acceptance (LOA). Due to a shorter preparation and

staffing cycle, P&A is normally used only for preliminary planning purposes. The LOA is a formal offer which, when accepted, forms the basis for the U.S. to provide the materiel and services offered.

Under Security Assistance Programs, the following are available - Defense articles, including major defense systems, subsystems, support equipment, repair parts, and publications are provided under SA. Services, including training in U.S. military schools or through mobile training teams, construction, engineering, contract administration, program management, technical support, and repair are also provided. Due to interest in encouraging standardization and interoperability among U.S. and SA countries, FMS normally involves the transfer of those items, which have been fielded with U.S. forces. While available through FMS, nonstandard articles or services are normally acquired commercially. Under certain conditions, cooperative programs such as co production and co-assembly under international agreements, technical assistance services, technical data, and leases of defense items are available.

Management of Security Assistance Programs - The U.S. Congress establishes the laws, authorizes programs, appropriates funds, and has an oversight role in Security Assistance. Within the Executive Branch, DOS, National Security Council, Office of Management and Budget, Department of Treasury, Department of Commerce, and others have responsibilities concerning SA. Aside from the President, the principal legislated responsibilities fall to the DOS and DOD. The Secretary of State provides continuous supervision and general direction for Security Assistance, including determining whether there will be a program for a country and, if so, its scope and whether, and when, a particular sale will be made.

Number of major sources of public laws that have affected the financial management structure of DOD is shown in the table below:

Misappropriation Act (Title 31, U.S. Code, Section 1301)	Requires that funds be used only for the programs and purposes for which the appropriation is made.
Bona Fide Need Rule (Title 31, U.S. CODE, Section 1502)	Requires that appropriated funds be used only for those needs or services that arise in the year/s of the appropriation's obligation availability period.
In 1906, Congress passed the Anti-Deficiency Act	This act prohibited the expenditure of funds in excess of the amount authorized and appropriated by Congress. To enforce the law, the Congress charged the executive branch to fix responsibilities for any over expenditure that did occur; and provide: (1) Administrative penalties for those who inadvertently exceed an appropriation. (2) Criminal penalties for those who exceeded an appropriation knowingly and



	willingly.
The Budget and Accounting Act of 1921 had three main provisions:	<p>(1) Provided for a comprehensive presidential budget.</p> <p>(2) Provided the President with the Budget Bureau to assist him in preparation of the budget and to strengthen his authority over the executive departments.</p> <p>(3) Assigned responsibility for accounting to a General Accounting Officer under a Comptroller General.</p>
The 1949 Amendments to the National Security Act of 1947 Pubic Law 216	<p>(1) Section 401. The Office of the Assistant Secretary of Defense (Comptroller) (ASD [C]) was established. The comptroller was given the responsibility of preparing the defense budget.</p> <p>(2) Section 403. This section provided for the performance budget technique. The narrative of the law stated that, "budget estimates of the Department of Defense shall be prepared, presented, and justified in such form and manner so as to account for, and report, the cost of performance of readily identifiable functional programs and activities</p> <p>(3) Section 404. This section gave the Secretary of Defense the authority to scrutinize and approve the rates of obligation of the services. The specific intent of this provision was to prevent overdrafts and deficiencies of the appropriations made available to DOD by Congress. It put the hands of the Secretary of Defense directly on the purse strings.</p>
The 1974 Congressional Budget and Impoundment Control Act.	Created a Congressional Budget Office. It also, established budget committees in both Houses of Congress and changed the fiscal year to 1 October through 30 September.
Goldwater-Nichols DOD Reorganization Act of 1986.	Implemented the DOD Biennial Budget process. It reorganized the Department of Defense. Designated the Chairman of JCS, as the principal military advisor to the president, the Secretary of Defense, and the National Security Council.
Chief Financial Officers Act of 1990	Required the preparation of five-year financial management systems improvement plans. This act required the annual reporting to the President and Congress on the status of general and financial management in the Federal Government.
Government Performance and Results	Required the development of strategic plans

Act of 1993.	focused on long-term goals. It required the development of annual performance plans with specific performance measures.
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Although these legal sources of DOD financial management structure certainly do not constitute our entire legal environment, they constitute the most significant items.

### Review Questions

1. Describe the three phases of PPBS process and the products of each. ([answer](#))
2. Where does the POM fit in the PPBS process and who is responsibility for preparing them POM. ([answer](#))
3. How dose acquisition management fit into the PPBS process? ([answer](#))
4. List the Congressional appropriations that are relevant to defense acquisition management. ([answer](#))
5. Explain why PPBS becomes PPBES for the Army? ([answer](#))
6. Future Years Defense Program is key to PPBS, what are the main building blocks in the FYDP? ([answer](#))
7. Define how appropriations generate funds. ([answer](#))
8. Describe the funding policies used in system acquisition. ([answer](#))
9. Describe the financial management funds flow process. ([answer](#))
10. What is budget authority and how it works with the enactment process. ([answer](#))
11. List each appropriation and the expenditure window for each. ([answer](#))
12. What is the major provisions of the Misappropriation Act. ([answer](#))
13. State the purpose of the Ant-Deficiency Act. ([answer](#))
14. Describe the key player in the PPBS/PPBES process and their responsibilities. ([answer](#))
15. Explain each of the key documents in the PPBS. ([answer](#))

### Key PPBS Documents

<b>Budget Estimate Submission (BES)</b>	Detailed costing of the Program Objective Memorandum (POM) as modified by the Program Decision Memorandum (PDM) by appropriation and major force program.
<b>Chairman's Program Assessment (CPA)</b>	An assessment of the composite Program Objective Memorandum (POM) force recommendations to assist the Secretary of Defense in decisions on the defense program subsequent to receipt of the POMS. The CPA summarize the views of the chairman on the balance and capabilities of the POM force and the levels to attain US national security objectives.
<b>Contingency Planning Guidance (CPG)</b>	The SECDEF's statutory duty to provide annually to the CJCS, written policy guidance for contingency planning. The CPG focuses the guidance provided in the NMS and DPG and directly impacts on the JSCP.
<b>Defense Planning Guidance (DPG)</b>	The DPG provides a strategic framework for developing the Service and DOD Agency program requests. The DPG is the

	result of planning efforts by the Joint Staff, Office of the Secretary of Defense (OSD), and the services/agencies.
<b>Issue Books (IB)</b>	A series of ten documents containing major issues or alternatives to programs contained in the Program Objective Memorandum (POM). The ten issues books are: Policy and Risk Assessment, CINC's Issues, Nuclear Forces, Conventional Forces, Modernization and Investment, Readiness and Other Logistics, Manpower, Intelligence, Management Initiatives and the Offset book.
<b>Joint Planning Document (JPD)</b>	The JPD supports the NMS by providing concise programming priorities, requirements, or advice to the SECDEF for consideration during preparation of the defense planning guidance.
<b>Joint Strategy Review (JSR)</b>	The JSR assesses the strategic environment for issues and factors that affect the National Military Strategy (NMS) in the near-term of the long-range. It is a process that continuously gathers information; examines current, emerging and future issues, threats, technologies, organization, doctrinal concepts, force structures, and military missions; and reviews assesses current strategy, forces, and national policy objectives. The JSR facilitates the integration of strategy, operational planning, and program assessment.
<b>National Security Strategy (NSS)</b>	The NSS details the top-level political, economic, and security strategy for the United States.
<b>National Military Strategy (NMS)</b>	The National Security Strategy provides input for the National Military Strategy. To produce the NMS, the Joint Chiefs of Staff (JCS) assess the evolution of the global threat, and changes in U.S. military strategy and policy. From this analysis, the JCS establishes military goals and objectives to meet the NSS.
<b>Program Budget Decision (PBD)</b>	Derived from the BES, represents the Dep/SecDef's decision on the Service budgets, approving them for inclusion in the President's Budget.
<b>Program Decisions Memorandum (PDM)</b>	SECDEF's approval of each Service's Program Objective Memorandum (POM) which forms the basis for developing the Budget Estimate Submission (BES).
<b>Program Objective Memorandum (POM)</b>	The memorandum which the Secretary of a military department or the Director of a defense agency submits to the Secretary of Defense to recommend the total resource requirements within the parameters of the fiscal guidance published by the SECDEF.